

Home-Based Business Tax Avoidance Schemes Talking Points

Most taxpayers with home-based businesses accurately report their income and expenses. However, in recent years IRS has uncovered a number of home-based business tax avoidance schemes that erroneously assert that individuals can operate any type of unprofitable "business" out of their home, and then claim personal expenses as business expenses. The IRS will continue to focus education and enforcement efforts in this area.

Non-deductible personal living expenses cannot be transformed into deductible business expenses.

- This is true regardless of how convincing the information in marketing materials may seem.
- Consult applicable Internal Revenue Code sections including, but not limited to, 127, 162, 183, 195, 262, and 274, which can be located selecting United States Code (USC) at:
<http://www.irs.gov/businesses/display/0,,i1%3D2%26genericId%3D23116,00.html>

A few examples of items that are generally not deductible as business expenses:

- Paying children a salary (e.g. for answering telephones, washing cars, etc.).
- Deducting personal travel, meals, and entertainment under the guise that everyone you encounter is a potential client.
- Deducting all or most of the cost and operation of a personal residence. For example, placing a calendar, desk, file cabinet, telephone, or some other business-related item in each room does not increase the amount that can be deducted.
- Deducting education expenses from salaries paid to children wrongfully claimed as employees.
- Deducting excessive car and truck expenses when a vehicle was used for both personal and business use.
- Deducting personal furniture, home entertainment equipment, children's toys, etc.

Taxpayers should also be aware that:

- Depreciation recapture rules apply when business assets, including a personal residence, are later sold.
- A "bona fide" business must truly exist prior to claiming business-related expenses.
- Any investment scheme or promotion that claims to allow a person to deduct what would normally be personal expenses as business expenses, should be considered highly suspect.

For more information,

- On how to amend a previously filed tax return call the Internal Revenue Service at 1-800-829-1040 or refer to the 1040X Instructions, <http://www.irs.gov/pub/irs-pdf/i1040x.pdf>.
- For specific questions regarding tax schemes or if you wish to report possible schemes call 1-866-775-7474 or send an email to <mailto:irs.tax.shelter.hotline@irs.gov>.
- Visit these IRS web sites: <http://www.ustreas.gov/irs/ci/> and <http://www.irs.gov/faqs/display/0,,i1%3D54%26genericId%3D13341,00.html>.
- Or find the following publications at <http://www.IRS.gov>.
 - Publication 587, Business Use of Your Home
 - Publication 463, Travel, Entertainment, Gift, and Car Expenses
 - Publication 334, Tax Guide for Small Business
 - Publication 17, Your Federal Income Tax for Individuals